BEFORE THE

SOUTH CAROLINA PUBLIC SERVICE COMMISSION

IN THE MATTER OF:	)	
APPLICATION OF SOUTH CAROLINA	)	
ELECTRIC AND GAS COMPANY FOR AN	)	**DOCKET NO. 2002-223-E**
INCREASE IN ITS ELECTRIC RATES	)	
AND CHARGES	)	

DIRECT TESTIMONY AND EXHIBIT

OF

GLENN A. WATKINS

ON BEHALF OF THE

SOUTH CAROLINA CONSUMER ADVOCATE

November 8, 2002

BEFORE THE SOUTH CAROLINA PUBLIC SERVICE COMMISSION
DOCKET NO. 2002-223-E
PREPARED DIRECT TESTIMONY AND EXHIBIT
OF
GLENN A. WATKINS

Introduction and Summary

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Glenn A. Watkins. My business address is James Center III, Suite 601, 1051 East Cary Street, Richmond, Virginia 23219.

Q. WHAT IS YOUR PROFESSIONAL AND EDUCATIONAL BACKGROUND?

A. I am Vice President and Senior Economist of Technical Associates, Inc., which is a business research and consulting firm with offices in Richmond, Virginia. Except during 1987 when employed by Old Dominion Electric Cooperative as its forecasting and rate economist, I have worked in varying capacities with Technical Associates continuously since 1980.

During my career at Technical Associates, I have conducted cost of capital, revenue requirement, load forecasting, cost of service, and rate design studies involving numerous electric, gas, water/wastewater, and telephone utilities, as well as presented expert testimony in Alabama, Arizona, Georgia, Maine, Maryland, Michigan, New Jersey, Illinois, Pennsylvania, Vermont, Virginia, South Carolina, and West Virginia in connection with these studies.

I hold an M.B.A. and B.S. in economics from Virginia Commonwealth University and have been qualified as a Certified Rate of Return Analyst. A more complete statement of my professional and educational background appears in the appendix to my testimony.

Q. HAVE YOU PREVIOUSLY APPEARED BEFORE THE SOUTH CAROLINA PUBLIC SERVICE COMMISSION?

A. Yes, I have provided expert testimony in the last two general rate cases of Piedmont Natural Gas Company, Inc. (1995 and 2002).

Q. PLEASE OUTLINE THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING.

A. My testimony presents certain findings regarding the appropriate accounting and rate making treatment for South Carolina Electric and Gas Company ("SCE&G") on behalf of the South Carolina Consumer Advocate ("SCCA").

Q. ARE YOU PRESENTING AN EXHIBIT IN SUPPORT OF YOUR TESTIMONY?

A. Yes, my testimony includes one exhibit consisting of 11 schedules.

Q. PLEASE SUMMARIZE YOUR FINDINGS AND RECOMMENDATIONS.

A. Based on my analysis and the recommendations of SCCA and South Carolina Merchants Association witness Parcell, I conclude that SCE&G should be authorized an increase in annual retail revenues of no more than $32.125 million. This compares to the request of the Company of $112.795 million. Moreover, I have certain recommended policy and ratemaking changes to the Storm Damage Reserve Mechanism and the Accelerated Capital Recovery Mechanism for Cope generating assets.

<u>Buy/Resell Transactions (SCE&G Adjustment #1)</u>

Q. PLEASE EXPLAIN THE COMPANY'S PROPOSED BUY/RESELL ADJUSTMENT.

A. SCE&G engages in electric buy/resell activities in which it purchases energy from an outside source and resells this energy to a third party. These buy/resell activities are often referred to as off-system sales.

In January 2002, this Commission issued an Order No. 2002-74 approving a request by SCE&G to change its accounting practices regarding off-system sales. Specifically, the Company requested approval to begin booking these transactions "below the line." In approving this accounting treatment, the Commission stated in its Order: "... any party may take issue with the amount or with the accounting treatment of the costs in future rate or earnings proceedings."

Furthermore, the Commission noted:

> The Company would ensure that all administrative costs associated with conducting Buy/Resell Transactions would also be accounted below-the line in order that no subsidization from the ratepayers would occur.

Because this order became effective October 1, 2001, test year electric operating revenues (account 447) and fuel expenses (account 555) include off-system sales activities through September 30, 2001. The Company's adjustment eliminates the revenue and fuel costs booked "above-the-line" through September 2001.

Q. HAS THE COMPANY ASSIGNED ANY ADMINISTRATIVE COSTS TO THESE OFF-SYSTEM SALES?

A. No.

Q. DO YOU AGREE WITH THE COMPANY'S PROPOSED ADJUSTMENT REGARDING BUY/RESELL TRANSACTIONS?

A. No, I do not. The ratemaking effect of the Company's proposal is for shareholders to receive 100 percent of the profit associated with these off-system sales. Therefore, ratepayers would receive no benefit from these activities that are only made possible through the use of SCE&G's regulated operations.

Q. DO YOU HAVE A RECOMMENDATION REGARDING THE RATEMAKING TREATMENT OF OFF-SYSTEM SALES?

A. Yes. I propose a sharing of margins generated from off-system sales between ratepayers and shareholders. Specifically, I propose that ratepayers receive 75 percent of the margin from these transactions and shareholders receive 25 percent. This ratemaking treatment is exactly the same as that proposed by Staff (and which I supported) in the recent Piedmont Natural Gas case (Docket No. 2002-63-G). This Commission approved this 75 percent/25 percent sharing in Order No. 2002-761.

Q. IS THE CONCEPT OF OFF-SYSTEM SALES SIMILAR BETWEEN GAS AND ELECTRIC UTILITIES?

A. The concept is identical. In the gas industry, utilities purchase excess gas (above their native load requirements) and resell this gas to third parties. SCE&G's electric off-system sales reflect the exactly same concept.

Q. WHAT IS THE IMPACT OF YOUR BUY/RESELL ADJUSTMENT?

A. As shown in my Schedule 3, total test year off-system sales revenues and purchased power expenses were $88.088 million and $85.921 million respectively. These activities generated a before tax margin of $2.167 million. My proposed sharing mechanism would provide a $1.625 million before tax benefit to ratepayers (total electric). On a retail basis, my before tax margin sharing proposal equals $1.511 million.

<u>Employee Clubs (SCE&G Adjustment #5)</u>

Q. PLEASE EXPLAIN YOUR ADJUSTMENT REGARDING EMPLOYEE CLUBS.

A. Although the Company has reduced test year O&M expenses and rate base associated with its activities and investment in its Pine Island, Sand Dunes, and Misty Lake clubs, I have reduced O&M expenses by a larger amount than that proposed by SCE&G.

With respect to its investment in these club's facilities, SCE&G has assigned 89.94 percent of the cost to electric operations. However, the Company has credited club O&M expenses only 55.11 percent to electric operations. I have credited the same 89.94 percent investment percentage to electric for O&M expenses. The effect of my adjustment is to reduce test year retail O&M expenses by an additional $156,000 from that proposed by the Company.

Jasper Generation Project (SCE&G Adjustment #18)

Q. PLEASE EXPLAIN YOUR ADJUSTMENT REGARDING THE JASPER GENERATION PROJECT.

A. SCE&G proposes to include in Construction Work in Progress (CWIP) the forecasted investment (including AFUDC) in the Jasper facility as of December 31, 2002. I have adjusted the Company's request to include only that investment through September 30, 2002. This adjustment is consistent with Commission policy regarding out of period (test-year) adjustments, is based on known and measurable amounts, and ensures a degree of finality in the rate-making process. The effect of this adjustment, as shown on my Schedule 5, is to reduce retail CWIP by $69.527 million.

GridSouth RTO Costs (SCE&G) Adjustment #20)

Q. PLEASE EXPLAIN SCE&G'S PROPOSED GRIDSOUTH RTO ADJUSTMENTS.

A. The Company claims to have spent in excess of $13 million in activities associated with its share of the formation of a proposed Regional Transmission Organization (RTO) involving SCE&G, Duke Power, and Carolina Power & Light.

According to the Company, it spent $13 million on a failed business venture and now it wants retail ratepayers to pay this money back with interest. In other words, SCE&G is proposing to amortize the $13 million over five years and is requesting rate base treatment of the unamortized balance.

Although most of the alleged costs were incurred before the test year, SCE&G is proposing to be compensated for all costs incurred to date regarding GridSouth. The annual retail revenue requirement impact under the Company's proposal is $3.35 million, which is comprised of $2.476 million annual amortization expense and $0.870 million in return and taxes on the unamortized balance.

Q. IS THE GRIDSOUTH PROJECT A FAILED BUSINESS VENTURE?

A. It is not certain whether GridSouth is a terminated project or not. According to SCE&G, Duke, and CP&L, the GridSouth project is suspended, not terminated.

Q. WHY DID THE RTO COMPANIES SUSPEND THE GRIDSOUTH PROJECT?

A. According to SCE&G, GridSouth was suspended due to a 180 degree change of posture and policy of the FERC. That is, SCE&G paints the picture that the GridSouth project initially had the full blessing of FERC, but with the appointment of Pat Wood as Chairman of the Commission, FERC suddenly did an about face and virtually pulled the plug on the future of GridSouth.

Q. DO YOU AGREE WITH SCE&G'S REPRESENTATIONS?

A. No. SCE&G would lead us to believe that the FERC initially forced the Company into the formation of an RTO, and the Company complied and began investing in the project with FERC's full blessing. Then, through no fault of the RTO companies, FERC pulled the rug out from under the GridSouth RTO.

While FERC Order No. 2000 clearly mandated that electric utilities must join or form an RTO, it also stated its preference for the formation of large regional RTOs. SCE&G, Duke Power and CP&L decided to join together and apply for a carolina's only RTO. As such, the proposal only tracks historically developed market boundaries and appears to fall significantly short of FERC's goal of having truly <u>regional</u> transmission organizations. <u>See also</u>, 18 C.F.R. § 35.34 (j)(2) calling for regions of sufficient scope and configuration to permit the RTO to maintain reliability, effectively perform its required functions, and support efficient and non-discriminatory power markets. Subsequently, on July 12, 2001, FERC called for a single RTO for the Southeastern United States..

On October 16, 2000, the companies applied for the formation of an independent, for-profit transmission company. On March 14, 2001, FERC issued an order provisionally accepting the applicants' filing with certain modifications. In this Order, FERC found that: "While not ideal with respect to scope and configuration, [the GridSouth proposal] represents a good first step toward the creation of an RTO in the southeast region and can serve as a platform for the formation of a larger RTO in the Southeast.".[1/]

Aside from FERC's preference for a single southeastern RTO, one of FERC's major concerns, and requirements of modification regarding the GridSouth proposal, was the independence of the RTO itself. This concern and requirement to modify was clearly stated in the March 14, 2001 Order and was similarly addressed in future rulings and orders.[2/]

Largely as a result of its requirements for a totally independent RTO, FERC put SCE&G, Duke and CP&L on notice as late as March 28, 2001[3/] that the companies (proposed RTO) may not spend funds on activities that are significant to the future operation of the RTO and may only expend funds on certain non-policy related matters. According to the July 12, 2001 GridSouth Order, "the GridSouth Applicants represented that they would similarly limit their spending prior to the seating of the independent Board."[4/]

Q. DID GRIDSOUTH EVER SEAT AN INDEPENDENT BOARD OF DIRECTORS?

A. No.

[1/] March 14 Order, 94 FERC at 61,993.

[2/] See for example FERC Orders dated May 30, 2001 [95 FERC 61,282) and July 12, 2001 (96 FERC 61,067).

[3/] See GridFlorida Order dated March 28, 2001 (94 FERC 61,363); CP&L, et.al. Order dated May 30, 2001 (95 FERC 61,282); and GridSouth Order dated July 12, 2001 (96 FERC 61,067).

[4/] 96 FERC 61,067.

Q. WHAT IS THE TOTAL COMBINED INVESTMENT IN THE GRIDSOUTH PROJECT.

A. As of July 31, 2002 the booked assets of GridSouth totaled $73.9 million.[5/]

Q. WHAT IS THE $73.9 MILLION INVESTMENT COMPRISED OF?

A. Although other intervenors and I have requested detailed information regarding SCE&G's alleged expenditures and investments in the GridSouth project, the Company has refused to provide anything more than summary financial information. As such, I cannot ascertain the specifics of SCE&G's alleged investment in the RTO project. However, I am aware that the GridSouth companies purchased significant equipment, computer hardware, and software for the project. These expenditures were clearly against FERC's directives and the companies' assurances to FERC.

Q. SHOULD SCE&G BE ALLOWED TO RECOVER ITS ALLEGED GRIDSOUTH RTO COSTS FROM SOUTH CAROLINA RETAIL RATEPAYERS?

A. No. At least not at this time. First, many of the expenses incurred were outside the test year. Second, it is my understanding that the burden of cost recovery is on the applicant for matters such as this. In this case, SCE&G has refused to provide anything more than invoices submitted to GridSouth and summary balance sheets for GridSouth. If the Commission is of the opinion that SCE&G's shareholders may possibly be entitled to some recovery of its GridSouth expenditures, I believe many questions need to be answered before an informed decision can be rendered. As such, I recommend that this matter be deferred until such time as the answers to at least the following questions are known:

(1) Was the purpose of the proposed for-profit RTO primarily for the benefit of wholesale customers and additional profit for SCE&G shareholders?

[5/] SCE&G response to Navy #1-29.

(2) What, if any, quantifiable benefits would retail customers receive from the proposed for-profit RTO?

(3) Why did SCE&G insist on a for-profit RTO?

(4) Should the cost recovery of expended GridSouth costs be reflected only in FERC approved wholesale rates?

(5) Should South Carolina retail customers pay for almost all of the GridSouth costs as proposed by SCE&G?

(6) Did the FERC abruptly change gears on the GridSouth project through no fault of SCE&G?

(7) Did SCE&G, Duke and CP&L jump the gun in investing in GridSouth given the FERC's directions and orders to the contrary?

(8) Were all costs prudently incurred?

(9) Should retail ratepayers pay for the imputed carrying charges included in GridSouth's assets?

(10) What, if any, investment assets are salvageable?

(11) Will SCE&G join an RTO in the foreseeable future?

(12) What will FERC do with respect to the already expended costs when SCE&G does join or form an RTO, and makes an FPA Section 205 filing?

(13) Should shareholders be totally insulated from this failed business venture? If not, what sharing of the pain is fair?

(14) Has SCE&G acted openly in disclosing information regarding GridSouth?

(15) Has SCE&G actually incurred these costs?

(16) What, if any, tax benefits has (or will) SCE&G receive from its expenditures in GridSouth?

(17) Is SCE&G seeking double recovery of GridSouth costs?

Q. YOUR LAST QUESTION IS WHETHER SCE&G IS SEEKING DOUBLE RECOVERY OF GRIDSOUTH COSTS. PLEASE EXPLAIN.

A. As shown in the Company's workpapers provided in Staff Audit request #57, many of the costs billed to GridSouth were for internal labor and benefits of SCE&G employees, as well as outside consultant costs incurred by SCE&G. To the extent test year O&M expenses were not debited for the amount billed to GridSouth, the Company's application reflects a double recovery of GridSouth costs. My Schedule 6 provides the adjustment to reduce O&M expenses associated with amounts charged to the GridSouth project. This adjustment equates to $2.358 million for total electric, and $2.220 million allocated to electric retail operations.

Cash Working Capital (SCE&G Adjustment #24)

Q. PLEASE DISCUSS YOUR CASH WORKING CAPITAL ADJUSTMENT.

A. Although I have used the same formula approach as used by SCE&G to estimate cash working capital in this analysis, I do not believe this formula approach is the appropriate methodology for larger utilities such as SCE&G. I note that my cash working capital adjustment differs from the Company's due to the effect of my other O&M expense adjustments.

Q. WHY IS THE FORMULA APPROACH NOT APPROPRIATE FOR LARGER UTILITIES SUCH AS SCE&G?

A. The formula approach is a "one size fits all" methodology in which cash working capital is estimated as **c** of non-fuel O&M expenses. Although this approach is arbitrary, it is a reasonable ratemaking guideline for very small regulated utilities, such as Class B&C water and sewer utilities, and smaller electric cooperatives. The historical rationale for the use of the formula approach is that the additional accuracy and benefits provided by a lead-lag study are not offset by the costs to perform a lead-lag study for very small utilities. This is not the case with major utilities such as SCE&G with a jurisdictional rate base exceeding $3 billion. Virtually every other jurisdiction requires lead-lag studies for major utilities, and, since 1981, FERC required lead-lag studies for all electric and gas rate cases.

I recognize that lead-lag studies add an additional expense to utilities' rate case expenses (in which ratepayers pay for); however, the additional accuracy of a lead-lag study far outweighs this minor cost when compared to a rate increase request of $113 million.

Therefore, I recommend the Commission direct SCE&G to perform a lead-lag study in its next rate case, and if SCE&G chooses not to do so, not include any cash working capital in its rate base.

Annualized Interest and Synchronization (SCE&G Adjustment #25)

Q. PLEASE EXPLAIN YOUR INTEREST SYNCHRONIZATION ADJUSTMENT.

A. I have adjusted interest expense for tax purposes to reflect the weighted cost of debt proposed by SCCA and SCMA witness Parcell. As shown on my Schedule 8, my interest adjustment effects test year per books amounts, as well as my pro forma adjustments.

Materials and Supplies (Adjustment #26)

Q. PLEASE EXPLAIN YOUR MATERIALS AND SUPPLIES ADJUSTMENT.

A. SCE&G proposes to include end of test year balances of inventories and materials and supplies in rate base. In my opinion, the use of end of period inventory balances is improper because this is not reflective of inventory balances throughout the year. Historically, and during the test-year, fuel inventories are at their highest annual level during March (the end of the test year). As shown in my Schedule 9, I have averaged the twelve ending monthly balances during the test year for each component of Materials and Supplies in order to develop a proper rate base level. My approach and analysis is consistent with the positions advocated by the SCCA and Navy in SCE&G's last rate case and approved by the Commission in Order No. 96-15 (pp. 19-20). My adjustment results in a reduction to retail rate base of $10.312 million.

Penalties and Fines (Adjustment #27)

Q. PLEASE EXPLAIN YOUR ADJUSTMENT FOR PENALTIES AND FINES.

A. During the test year SCE&G was assessed a penalty of $101,000 by the S.C. Department of Health and Environmental Control for the improper disposal of hazardous waste. I believe penalties of this nature should be borne solely by shareholders since any pass-through of these costs to ratepayers negates the purpose of a penalty. Therefore, as shown on my Schedule 10, I have reduced total electric O&M expenses by $101,000.

<u>Storm Damage Reserve (Adjustment #28)</u>

Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO THE STORM DAMAGE RESERVE.

A. As shown in my Schedule 11, the actual net of tax storm damage reserve as of March 31, 2002, was $16.797 million. However, for jurisdictional retail electric purposes, the Company inadvertently allocated a portion of this reserve to wholesale operations. Since the Storm Reserve is totally funded by retail customers, the entire net of tax reserve balance should be deducted from rate base as customer supplied funds. SCE&G agrees with this adjustment as reflected in its response to the Consumer Advocate's Interrogatory No. 2-12.

Q. PLEASE EXPLAIN WHAT IS MEANT BY NET OF TAX RESERVE BALANCE.

A. Even though the actual reserve balance is $27.2 million, the IRS treats these funds as ordinary income when they are collected and allows a deduction when funds are actually used. The effect of this IRS tax treatment is that SCE&G must pay taxes on the reserve up front and receive a credit, if and when, they are used. Therefore, the actual reserve balance of $27.2 million is reduced to $16.8 for ratemaking purposes to reflect the fact that the Company does not currently have access to the entire $27.2 million balance. Although the Company has correctly reflected the accounting treatment of this reserve, it is important to note that ratepayers have contributed $27.2 million to the reserve fund, but are only receiving the benefit of $16.8 million for the use of their supplied funds.

Q. DO YOU HAVE A RECOMMENDATION TO PARTIALLY OFFSET THIS INEQUITY TO RATEPAYERS?

A. Yes. The reserve fund is capped at $50 million. Currently the reserve is funded 100 percent by ratepayers. I propose a change to the funding mechanism whereby shareholders shall contribute the tax effect of the fund balance out of retained earnings. In this way, it will not create additional taxes for the Company and will not effect reported earnings.

Q. WHY IS THIS PARTIAL FUNDING BY SHAREHOLDERS FAIR?

A. SCE&G is insulated from the risk of even relatively minor storm damage. That is, because ratepayers currently fund the risk of storm damage, SCE&G's earnings are not reduced as a result of storms. This is a significant reduction in the risk to shareholders. By requiring the Company to share in the funding with retained earnings, the $50 million cap will be achieved much faster. If and when a major storm does occur, even though some of the shareholder supplied reserve funds will be used to repair damages, they (shareholders) will receive the tax benefit of the expenses to make repairs to the Company's system.

<u>Other Ratemaking Issues</u>

Q. DO YOU HAVE COMMENTS OR RECOMMENDATIONS REGARDING OTHER RATEMAKING ISSUES?

A. Yes. I have several comments and a recommendation regarding the accelerated capital recovery of Cope generating assets available to SCE&G for financial reporting purposes.

Q. PLEASE EXPLAIN.

A. SCE&G is requesting a continuation of the Commission's approval to allow the Company to increase its periodic depreciation expense for its Cope generating facilities over and above the Commission authorized depreciation rate at the Company's sole discretion.

Without a doubt, the only purpose of this improper accounting is to reduce the level of SCE&G's reported earnings, if and when they would otherwise be unacceptably high (e.g., above its authorized rate of return).

This accounting treatment is nothing more than allowing the Company to misrepresent its financial results and present whatever picture it wants to the financial and regulatory communities as well as to other interested parties. Not only is this accounting practice not responsible nor in the public interest, it is in direct violation of the National Association of Regulatory Utility Commissioners' (NARUC) prescribed depreciation practices. In its 1996 manual and policy statement regarding proper utility depreciation practices, NARUC states[6/]:

> Prescribing depreciation rates is one of the most important regulatory commission activities impacting customer rates. The estimation of depreciation parameters is not, of course, a scientifically exact process, since it involves a large element of informed judgement regarding future developments. **At the same time, it cannot be an arbitrary figure selected for convenience...** [Emphasis Added]

NARUC further states[7/]:

> It [depreciation expense] is not intended, for example, to achieve a desired financial objective or to fund modernization programs.

The Manual also adds[8/]:

> Generally accepted accounting does not require any specific method of determining depreciation expense. It only requires that the method used to allocate the cost of assets to accounting periods be systematic and rational.

Q. WHAT WAS SCE&G'S STATED PURPOSE FOR REQUESTING THIS UNILATERAL ABILITY TO ALTER ITS REPORTED EARNINGS?

A. In its August 1999 application to the Commission regarding this accounting treatment, SCE&G cited two reasons for its request. First, it indicated that:

> while costs, such as those related to investments in infrastructure and technology necessary to meet customer growth and improve customer service, have indeed risen, they have not risen to levels that will offset the variable amortization expense approved by the Commission in Order No. 96-15 now or in the immediate future.

In other words, SCE&G was faced with a potential "over-earnings problem."

Second, the Company cited concerns over the possibility of electric deregulation in South Carolina, which could potentially lead to stranded investment. However, as we are all aware, the possibility of deregulation of electricity in South Carolina is dead and gone, at least for the foreseeable future. Even if deregulation were a remote possibility, a utility's

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6/ Public Utility Depreciation Practices, NARUC, 1996, pp. 22-23.

7/ ibid.

8/ ibid, p. 43.

investments are only stranded, if and when, customers leave the system. In this regard, there are much better (and effective) tools to deal with the potential threat of stranded costs, if and when they occur.[9]

Q. WHY IS THIS ACCOUNTING PRACTICE NOT IN THE PUBLIC INTEREST?

A. As a matter of public policy, I do not believe this Commission should condone these misrepresentations of the Company's operations for reporting purposes. This is especially important given the current national state of affairs regarding improper financial reporting scams of such firms as Enron, MCI Worldcom, Duke Power, as well as widespread investigations of improper practices in the accounting profession. In addition, this Commission is keenly aware of public attention given to the recent Grant Thornton report regarding Duke Power's improper accounting practices in order to "avoid reporting over-earnings to regulators." The mechanism proposed by SCE&G accomplishes only the same goal, and should be discontinued immediately.

Q. DO YOU HAVE ANY OTHER COMMENTS REGARDING SCE&G'S APPLICATION OR THIS RATE CASE GENERALLY?

A. Yes. It was my desire to examine the Company's request in more detail. Unfortunately, in the discovery phase of this case, SCE&G used every opportunity to stifle my investigation through tactics such as claiming documents are voluminous or confidential, and stating that documents did not exist. For example, even though the Company is requesting an increase in revenues exceeding $112 million, it asserted that it would be burdensome to copy and provide certain workpapers and documents, such as those used to prepare its proposed depreciation study, although it was clearly cost effective and non-burdensome to provide such material to its own consultants, Deloitte & Touche.

When detailed financial information was requested regarding the GridSouth project, SCE&G ultimately provided summary balance sheets of GridSouth but deemed this information confidential and subject to the confidentiality agreement I entered into with the

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[9] See for example, the legislatively prescribed method for recovery of stranded costs in Virginia. Costs are only stranded when customers choose another generator and leave the system. In these instances, utilities may impose a wires charge to compensate for a pre-determined stranded cost. To date, no utilities have incurred any stranded costs as no customers have left their incumbent utility's generating system.

Company. However, these so called “confidential” balance sheets were the exact same information not deemed confidential and previously provided in response to a Navy data request. Similarly, I was prevented from fully investigating the reasonableness of the Company's retail and wholesale allocations by the Company's refusal to provide an executable copy of its jurisdictional cost of service study in electronic format.

Finally, for several weeks, and through many attempts with discovery questions, I attempted to obtain the Company’s workpapers. SCE&G represented and stated that “this is all we have” or that the requested information did not exist. On Saturday November 2 (six days ago), I received four binders of workpapers previously provided to Staff. To further illustrate the difficulties with the discovery process, I requested information regarding the Company’s proposed accounting and pro forma adjustments on a retail basis (the application only provides the adjustments on a total electric basis). SCE&G continuously stated that the information did not exist. Specifically, I requested the Company provide its proposed accounting and pro forma adjustments on a retail basis, in the same format as Exhibit D-II, page 3. As late as October 28, SCE&G stated: “The Company, however, has not prepared a version of Exhibit D-II, page 3 on a retail basis.” On November 1, I received documents previously provided to Staff. On September 20, Tom Ellison with the Staff made the following Audit Request Number 32: “Provide Exhibit D-II, page 3 of 3 on a retail basis.” This information was provided to Staff on or about September 23, and is exactly what SCE&G said did not exist.

Q. HAVE YOU BROUGHT DISCOVERY CONCERNS TO THE ATTENTION OF COMMISSIONS IN THE PAST?

A. No. While I have been less than satisfied with discovery responses in other cases during the 22 years of my practice in the field of utility regulation and participation in hundreds of utility rate cases, I have not found a need to bring it to any Commission’s attention.

Q. DOES THIS COMPLETE YOUR TESTIMONY?

A. Yes.

APPENDIX

BACKGROUND & EXPERIENCE PROFILE

GLENN A. WATKINS

VICE PRESIDENT/SENIOR ECONOMIST
TECHNICAL ASSOCIATES, INC.

EDUCATION

1982 - 1988	M.B.A., Virginia Commonwealth University, Richmond, Virginia
1980 - 1982	B.S., Economics; Virginia Commonwealth University
1976 - 1980	A.A., Economics; Richard Bland College of The College of William and Mary, Petersburg, Virginia

POSITIONS

Jul. 1995-Present	Vice President/Senior Economist, Technical Associates, Inc.
Mar. 1993-1995	Vice President/Senior Economist, C. W. Amos of Virginia
Apr. 1990-Mar. 1993	Principal/Senior Economist, Technical Associates, Inc.
Aug. 1987-Apr. 1990	Staff Economist, Technical Associates, Inc., Richmond, Virginia
Feb. 1987-Aug. 1987	Economist, Old Dominion Electric Cooperative, Richmond, Virginia
May 1984-Jan. 1987	Staff Economist, Technical Associates, Inc.
May 1982-May 1984	Economic Analyst, Technical Associates, Inc.
Sep. 1980-May 1982	Research Assistant, Technical Associates, Inc.

EXPERIENCE

I. Public Utility Regulation

A. Costing Studies -- Conducted, and presented as expert testimony, numerous embedded and marginal cost of service studies. Cost studies have been conducted for electric, gas, telecommunications, water, and wastewater utilities. Analyses and issues have included the evaluation and development of alternative cost allocation methods with particular emphasis on ratemaking implications of distribution plant classification and capacity cost allocation methodologies. Distribution plant classifications have been conducted using the minimum system and zero-intercept methods. Capacity cost allocations have been evaluated using virtually every recognized method of allocating demand related costs (e.g., single and multiple coincident peaks, non-coincident peaks, probability of loss of load, average and excess, and peak and average).

Embedded and marginal cost studies have been analyzed with respect to the seasonal and diurnal distribution of system energy and demand costs, as well as cost effective approaches to incorporating energy and demand losses for rate design purposes. Economic dispatch models have been evaluated to determine long range capacity requirements as well as system marginal energy costs for ratemaking purposes.

B. Rate Design Studies -- Analyzed, designed and provided expert testimony relating to rate structures for all retail rate classes, employing embedded and marginal cost studies. These rate structures have included flat rates, declining block rates, inverted block rates, hours use of demand blocking, lighting rates, and interruptible rates. Economic development and special industrial rates have been developed in recognition of the competitive environment for specific customers. Assessed alternative time differentiated rates with diurnal and seasonal pricing structures. Applied Ramsey (Inverse Elasticity) Pricing to marginal costs in order to adjust for embedded revenue requirement constraints.

C. Forecasting and System Profile Studies **--** Development of long range energy (Kwh or Mcf) and demand forecasts for rural electric cooperatives and investor owned utilities. Analysis of electric plant operating characteristics for the determination of the most efficient dispatch of generating units on a system-wide basis. Factors analyzed include system load requirements, unit generating capacities, planned and unplanned outages, marginal energy costs, long term purchased capacity and energy costs, and short term power interchange agreements.

D. Cost of Capital Studies -- Analyzed and provided expert testimony on the costs of capital and proper capital structures for ratemaking purposes, for electric, gas, telephone, water, and wastewater utilities. Costs of capital have been applied to both actual and hypothetical capital structures. Cost of equity studies have employed comparable earnings, DCF, and CAPM analyses. Econometric analyses of adjustments required to electric utilities cost of equity due to the reduced risks of completing and placing new nuclear generating units into service.

E. Accounting Studies **--** Performed and provided expert testimony for numerous accounting studies relating to revenue requirements and cost of service. Assignments have included original cost studies, cost of reproduction new studies, depreciation studies, lead-lag studies, Weather normalization studies, merger and acquisition issues and other rate base and operating income adjustments.

II. Transportation Regulation

A. Oil and Products Pipelines **--** Conducted cost of service studies utilizing embedded costs, I.C.C. Valuation, and trended original cost. Development of computer models for cost of service studies utilizing the "Williams" (FERC 154-B) methodology. Performed alternative tariff designs, and dismantlement and restoration studies.

B. Railroads **--** Analyses of costing studies using both embedded and marginal cost methodologies. Analyses of market dominance and cross-subsidization, including the implementation of differential pricing and inverse elasticity for various railroad commodities. Analyses of capital and operation costs required to operate "stand alone" railroads. Conducted cost of capital and revenue adequacy studies of railroads.

III. Insurance Studies

Conducted and presented expert testimony relating to market structure, performance, and profitability by line and sub-line of business within specific geographic areas, e.g. by state. These studies have included the determination of rates of return on Statutory Surplus and GAAP Equity by line - by state using the NAIC methodology, and comparison of individual insurance company performance vis a vis industry Country-Wide performance.

Conducted and presented expert testimony relating to rate regulation of workers compensation, automobile, and professional malpractice insurance. These studies have included the determination of a proper profit and contingency factor utilizing an internal rate of return methodology, the development of a fair investment income rate, capital structure, cost of capital.

Other insurance studies have included testimony before the Virginia Legislature regarding proper regulatory structure of Credit Life and P&C insurance; the effects on competition and prices resulting from proposed insurance company mergers, maximum and minimum expense multiplier limits, determination of specific class code rate increase limits (swing limits); and investigation of the reasonableness of NCCI’s administrative assigned risk plan and pool expenses.

IV. <u>Anti-Trust and Commercial Business Damage Litigation</u>

Analyses of alleged claims of attempts to monopolize, predatory pricing, unfair trade practices and economic losses. Assignments have involved definitions of relevant market areas(geographic and product) and performance of that market, the pricing and cost allocation practices of manufacturers, and the economic performance of manufacturers' distributors.

Performed and provided expert testimony relating to market impacts involving automobile and truck dealerships, incremental profitability, the present value of damages, diminution in value of business, market and dealer performance, future sales potential, optimal inventory levels, fair allocation of products, financial performance; and business valuations.

MEMBERSHIPS AND CERTIFICATIONS

Member, Association of Energy Engineers (1998)
Certified Rate of Return Analyst, Society of Utility and Regulatory Financial Analysts (1992)
Member, American Water Works Association
National Association of Business Economists
Richmond Association of Business Economists
National Economics Honor Society

SOUTH CAROLINA ELECTRIC & GAS COMPANY
SOUTH CAROLINA RETAIL
Docket No. 2002-223-E
Net Operating Income and Rate of Return
Test Year Ended March 2002
SCE&G vs. SCCA PROPOSED
($000)

	SCE&G 1/			SCCA 2/		
	ADJUSTED @ CURRENT RATES	PROPOSED	INCREASE	ADJUSTED @ CURRENT RATES	PROPOSED	INCREASE
OPERATING INCOME:						
Total Operating Revenues	$1,228,169	$1,340,964	$112,795	$1,289,558	$1,321,683	$32,125
Total Operating Expenses	$975,424	$1,018,856	$43,432	$1,034,078	$1,046,475	$12,397
Net Operating Income	$252,745	$322,108	$69,363	$255,480	$275,208	$19,728
Interest on Customers' Deposits	($1,169)	($1,169)	$0	($1,169)	($1,169)	$0
Customer Growth	$1,986	$2,531	$545	$2,007	$2,163	$155
Net Operating Income for Return	**$253,562**	**$323,470**	**$69,908**	**$256,319**	**$276,202**	**$19,883**
RATE BASE:						
Plant in Service	$4,809,736	$4,809,736	- -	$4,809,736	$4,809,736	- -
Accum. Depreciation	($1,594,729)	($1,594,729)	- -	($1,594,728)	($1,594,728)	- -
Net Plant	$3,215,007	$3,215,007	- -	$3,215,008	$3,215,008	- -
CWIP	$474,745	$474,745	- -	$405,217	$405,217	- -
Deferred Debits/Credits	($130,360)	($130,360)	- -	($136,768)	($136,768)	- -
Working Capital	$13,235	$13,235	- -	$12,616	$12,616	- -
Materials & Supplies	$147,023	$147,023	- -	$136,710	$136,710	- -
Accum. Deferred Income Taxes	($461,697)	($461,697)	- -	($461,697)	($461,697)	- -
Total Rate Base	**$3,257,953**	**$3,257,953**	**- -**	**$3,171,087**	**$3,171,087**	**- -**
RATE OF RETURN ON RATE BASE	7.78%	9.93%	- -	8.08%	8.71%	- -

1/ Per SCE&G Exhibit D-II, Page 2.
2/ Per Page 2.

SOUTH CAROLINA ELECTRIC & GAS COMPANY
SOUTH CAROLINA RETAIL
Docket No. 2002-223-E
Test Year Ended March 2002
SCCA ADJUSTED
($000)

	(1) TOTAL ELECTRIC PER BOOKS 1/	(2) ALLOCATED RETAIL PER BOOKS 1/	(3) SCE&G PROFORMA RETAIL 2/	(4) SCCA ADJUSTMENTS TO SCE&G PROFORMA RETAIL 3/	(5) ADJUSTED RETAIL @ CURRENT RATES (3) + (4)	(6) REQUIRED INCREASE	(7) RETAIL AFTER INCREASE (5) + (6)
OPERATING REVENUES	$1,336,701	$1,287,805	$1,228,169	$61,389	$1,289,558	$32,125	$1,321,683
OPERATING EXPENSES							
O&M EXPENSES-FUEL	$345,186	$325,168	$324,540	$0	$324,540		$324,540
O&M EXPENSES-OTHER	$352,093	$338,613	$306,600	$54,930	$361,530	$45	$361,574
DEPRECIATION & AMORTIZATION	$152,714	$147,606	$165,201	($0)	$165,201		$165,201
TAXES OTHER THAN INCOME	$90,004	$87,196	$90,646	$0	$90,646	$132	$90,778
STATE INCOME TAXES	$9,862	$9,754	$7,063	$487	$7,550	$1,597	$9,147
FEDERAL INCOME TAXES	$100,500	$99,230	$81,630	$3,239	$84,869	$10,623	$95,491
DEFERRED TAX EXPENSE	($331)	($326)	($328)	$0	($328)		($328)
ITC EXPENSE	($18)	$50	$71	$0	$71		$71
TOTAL OPERATING EXPENSES	$1,050,010	$1,007,291	$975,423	$58,655	$1,034,078	$12,397	$1,046,475
OPERATING RETURN	$286,691	$280,514	$252,746	$2,734	$255,480	$19,728	$275,208
CUSTOMER GROWTH	$2,198	$2,198	$1,986	$21	$2,007	$155	$2,163
INTEREST ON CUSTOMER DEPOSITS	($1,169)	($1,169)	($1,169)	$0	($1,169)		($1,169)
NET RETURN	$287,720	$281,543	$253,563	$2,756	$256,319	$19,883	$276,202
RATE BASE							
PLANT IN SERVICE	$4,739,569	$4,586,160	$4,809,736	$0	$4,809,736		$4,809,736
DEPRECIATION RESERVE	($1,674,844)	($1,619,597)	($1,594,728)	($0)	($1,594,728)		($1,594,728)
NET PLANT IN SERVICE	$3,064,725	$2,966,563	$3,215,008	$0	$3,215,008		$3,215,008
Add:							
CONSTRUCTION WORK IN PROGRESS	$581,639	$555,892	$474,744	($69,527)	$405,217		$405,217
MATERIALS & SUPPLIES	$156,725	$148,996	$147,022	($10,312)	$136,710		$136,710
CASH WORKING CAPITAL	$67,594	$64,497	$67,971	($619)	$67,352		$67,352
PREPAYMENTS	$10,005	$9,740	$9,667	$0	$9,667		$9,667
DEF DEBIT/ ENVIRONMENTAL	$95	$92	$91	$0	$91		$91
GridSouth COSTS	$0	$0	$6,144	($6,144)	$0		$0
Deduct:							
ACCUMULATED DEFERRED INCOME TAXES	($482,040)	($466,142)	($461,697)	$0	($461,697)		($461,697)
AVERAGE TAX ACCRUALS	($46,304)	($45,336)	($45,280)	$0	($45,280)		($45,280)
CUSTOMER DEPOSITS	($15,655)	($15,655)	($15,655)	$0	($15,655)		($15,655)
INJURIES & DAMAGES	($3,618)	($3,501)	($3,468)	$0	($3,468)		($3,468)
OPEBS	($64,370)	($62,154)	($61,646)	$0	($61,646)		($61,646)
STORM RESERVE	($16,797)	($16,581)	($16,533)	($264)	($16,797)		($16,797)
DEF. CREDIT (COLUMBIA FRANCHISE)	$0	$0	($16,534)	$0	($16,534)		($16,534)
SYNFUEL TAX CREDIT RESERVE	($37,718)	($36,510)	($41,882)	$0	($41,882)		($41,882)
TOTAL RATE BASE	$3,214,281	$3,099,901	$3,257,952	($86,865)	$3,171,087		$3,171,087
RATE OF RETURN ON RATE BASE	8.95%	9.08%	7.78%		8.08%		8.71%

1/ Per SCE&G response to CA #2-2 (Per Books Study).
2/ Per SCE&G response to CA #2-2 (Proforma Study).
3/ Per Schedule 2.

SOUTH CAROLINA ELECTRIC & GAS COMPANY
SOUTH CAROLINA RETAIL
Docket No. 2002-223-E
Test Year Ended March 2002
SCCA ADJUSTMENTS TO SCE&G PROFORMA AMOUNTS
OPERATING INCOME
($000)

	ADJUSTMENT	REVENUES	O&M EXPENSES	DEPREC. & AMORT. EXPENSE	TAXES OTHER THAN INCOME	STATE INCOME TAX	FEDERAL INCOME TAX
1	Buy/ Resale Transactions	**$61,389 1/**	**$59,879 1/**			**$76**	**$502**
2	Sale for Resale Contract	$0	$0			$0	$0
3	Capacity Purchases		$0			$0	$0
4	Uncollectibles		$0			$0	$0
5	Employee Clubs		**($156) 2/**	($0)		**$8**	**$52**
6	Service Co. Allocations		$0			$0	$0
7	Nuclear Plant Security		$0			$0	$0
8	Compensation		$0			$0	$0
9	Employee Benefits		$0			$0	$0
10	Plant in Service						
11	Depreciation Reserve						
12	Annualize Curr. Depr. Rates			$0		$0	$0
13	New Depr. Study			$0		$0	$0
14	Amortization Expense			$0		$0	$0
15	Property Taxes				$0	$0	$0
16	CWIP						
17	Urquhart Re-powering		$0	$0	$0	$0	$0
18	Jasper Gen.. Project						
19	Saluda Dam Remediation						
20	GridSouth RTO Costs		**($4,696) 4/**			**$235**	**$1,562**
21	Charleston Franchise						
22	Columbia Franchise			$0		$0	$0
23	Synthetic Fuel Credits						
24	Working Cash						
25	Interest Synchronization					**$164 6/**	**$1,091 6/**
26	Materials & Supplies						
27	Penalties & Fines		**($97) 8/**			**$5**	**$32**
28	Storm Reserve						
	TOTAL	$61,389	$54,930	($0)	$0	$487	$3,239

SOUTH CAROLINA ELECTRIC & GAS COMPANY
SOUTH CAROLINA RETAIL
Docket No. 2002-223-E
Test Year Ended March 2002
SCCA ADJUSTMENTS TO SCE&G PROFORMA AMOUNTS
RATE BASE
($000)

	ADJUSTMENT	PLANT IN SERVICE	DEPR. RESERVE	CWIP	MAT. & SUPP.	WORKING CAPITAL	DEFERRED OPEB	DEFERRED GRIDSOUTH	DEFERRED COLUMBIA FRANCHISE	DEFERRED SYNFUEL CREDITS	STORM RESERVE
1	Buy/ Resale Transactions										
2	Sale for Resale Contract										
3	Capacity Purchases										
4	Uncollectibles										
5	Employee Clubs	$0	($0)								
6	Service Co. Allocations										
7	Nuclear Plant Security										
8	Compensation										
9	Employee Benefits						$0				
10	Plant in Service	$0									
11	Depreciation Reserve		$0								
12	Annualize Curr. Depr. Rates		$0								
13	New Depr. Study		$0								
14	Amortization Expense										
15	Property Taxes										
16	CWIP			$0							
17	Urquhart Re-powering	$0	$0	$0							
18	Jasper Gen.. Project			**($69,527) 3/**							
19	Saluda Dam Remediation			$0							
20	GridSouth RTO Costs							**($6,144) 4/**			
21	Charleston Franchise		$0								
22	Columbia Franchise	$0	$0						$0		
23	Synthetic Fuel Credits									$0	
24	Working Cash					**($619) 5/**					
25	Interest Synchronization										
26	Materials & Supplies				**($10,312) 7/**						
27	Penalties & Fines										
28	Storm Reserve										**($264)**
	TOTAL	$0	($0)	($69,527)	($10,312)	($619)	$0	($6,144)	$0	$0	($264)

SOUTH CAROLINA ELECTRIC & GAS COMPANY
SOUTH CAROLINA RETAIL
Docket No. 2002-223-E
Test Year Ended March 2002
SCCA ADJUSTMENTS TO SCE&G PROFORMA AMOUNTS
NOTES

1/PER SCHEDULE 3.

2/PER SCHEDULE 4.

3/PER SCHEDULE 5.

4/PER SCHEDULE 6.

5/PER SCHEDULE 7.

6/PER SCHEDULE 8.

7/PER SCHEDULE 9.

8/PER SCHEDULE 10.

9/PER SCHEDULE 11.

Exhibit__(GAW-1)
Schedule 3

SOUTH CAROLINA ELECTRIC & GAS COMPANY
SOUTH CAROLINA RETAIL
Docket No. 2002-223-E
Test Year Ended March 2002
SCCA ADJUSTMENTS TO SCE&G PROFORMA AMOUNT
BUY/RESALE ADJUSTMENT (Adjustment #1)
($000)

	MONTH	REVENUE	PURCH. PWR	MARGIN
PRE ORDER 2002-74: 1/				
(TOTAL ELECTRIC)	APR 01	$6,272	$6,724	
	MAY 01	$4,247	$3,964	
	JUN 01	$14,962	$13,468	
	JUL 01	$15,381	$15,409	
	AUG 01	$18,953	$17,938	
	SEP 01	$2,805	$3,354	
	SUBTOTAL	$62,621	$60,856	$1,765
POST ORDER 2002-74: 1/				
(TOTAL ELECTRIC)	OCT 01	$2,267	$2,130	
	NOV 01	$2,703	$2,598	
	DEC 01	$4,447	$4,305	
	JAN 02	$4,291	$4,187	
	FEB 02	$4,634	$4,632	
	MAR 02	$7,124	$7,212	
	SUBTOTAL	$25,467	$25,065	$402
TOTAL TEST YEAR		$88,088	$85,921	$2,167
RATE PAYER %		75.00%	75.00%	
RATE PAYER AMT.		$66,066	$64,441	$1,625
LESS PER BOOKS AMT		$62,621	$60,856	$1,765
ADJUSTMENT TO PER BOOKS (TOTAL ELECT.)		$3,445	$3,584	($139)
RETAIL PCT 2/		92.92%	92.92%	
RETAIL ADJUSTMENT		$3,201	$3,331	($129)
SCE&G RETAIL ADUSTMENT 3/		($58,188)	($56,548)	($1,640)
SCCA ADJUSTMENT TO SCE&G PROFORMA		$61,389	$59,879	$1,511

1/ Per Staff Audit Request #29.

2/ Per SCE&G response to CA #2-2 (Proforma Study).

3/ Per Staff Audit Request #32.

Exhibit__(GAW-1)
Schedule 4

SOUTH CAROLINA ELECTRIC & GAS COMPANY
SOUTH CAROLINA RETAIL
Docket No. 2002-223-E
Test Year Ended March 2002
SCCA ADJUSTMENTS TO SCE&G PROFORMA AMOUNT
EMPLOYEE CLUBS ADJUSTMENT (Adjustment #5)

Description	Total O&M Expense	Common Plant Allocation	Depreciation Reserve Allocation	Depreciation Expense Allocation
	$	$	$	$
Pine Island Club	292,845	1,533,356	522,833	73,295
Sand Dunes Club	135,913	552,076	278,236	25,863
Misty Lake Club	40,755	577,201	167,064	21,086
TOTAL	469,513	(2,662,633)	(968,133)	(120,244)
% Applicable to Electric Operations 1/	89.94%			
	422,280			
Less: Common Plant Reimbursement	26,059			
Decrease in O&M Expense	(396,221)			
Percent Retail 2/	95.71%	95.61%	95.66%	95.83%
Retail Adjustment	($379,216)	($2,545,649)	($926,127)	($115,234)
SCCA Retail Adjustment ($000) 2/	($379)	($2,546)	($926)	($115)
SCE&G RETAIL ADJUSTMENT	($223)	($2,546)	($926)	($115)
SCCA ADJUSTMENT TO SCE&G PROFORMA	($156)	$0	($0)	($0)

1/ Per Staff Audit Request #37.
2/ Per Staff Audit Request #32.

Exhibit__(GAW-1)
Schedule 5

SOUTH CAROLINA ELECTRIC & GAS COMPANY
SOUTH CAROLINA RETAIL
Docket No. 2002-223-E
Test Year Ended March 2002
SCCA ADJUSTMENTS TO SCE&G PROFORMA AMOUNT
JASPER GENERATION PROJECT ADJUSTMENT (Adjustment #18)
($000)

Balance Per Books @ June 30, 2002 1/	$148,142
Balance @ September 30, 2002 1/	$202,060
Increase from June	$53,917
Percent Retail 2/	93.75%
Retail Adjustmet to CWIP	$50,545
SCE&G RETAIL ADJUSTMENT 2/	$120,072
SCCA ADJUSTMENT TO SCE&G PROFORMA RETAIL	($69,527)

1/ Per Staff Audit request No. 55.

2/ Per Staff Audit Request #32.

Exhibit__(GAW-1)
Schedule 6

SOUTH CAROLINA ELECTRIC & GAS COMPANY
SOUTH CAROLINA RETAIL
Docket No. 2002-223-E
Test Year Ended March 2002
SCCA ADJUSTMENTS TO SCE&G PROFORMA AMOUNT
GRIDSOUTH RTO ADJUSTMENT (Adjustment #20)
($000)

	SCE&G TEST YEAR GRIDSOUTH EXPENSES 1/		
Month	Total SCE&G BILLED TO GRIDSOUTH	LESS INTEREST AND TRUE-UPS	SCE&G O&M EXP. ASSOCIATED WITH GRIDSOUTH
APR 01	$233	$14	$220
MAY 01	$224	$16	$208
JUN 01	$454	$17	$436
JUL 01	$292	$19	$273
AUG 01	$230	$22	$208
SEP 01	$203	$24	$179
OCT 01	$138	$26	$113
NOV 01	$263	$27	$236
DEC 01	$2,898	$2,657	$241
JAN 02	$55	$20	$36
FEB 02	$551	$402	$150
MAR 02	$109	$50	$59
TOTAL TEST YEAR	$5,652	$3,293	$2,358
PERCENT RETAIL 3/			94.14%
RETAIL ADJUSTMENT			($2,220)

	O&M	DEFERRED DEBITS/CREDITS
SCE&G RETAIL ADJUSTMENT	$2,476	$6,144
SCCA ADJUSTMENT TO SCE&G PROFORMA	($4,696)	($6,144)

1/ Per Staff Audit Request # 57
2/ Per Staff Audit Request # 37.
3/ Per Staff Audit Request # 32.

SOUTH CAROLINA ELECTRIC & GAS COMPANY
SOUTH CAROLINA RETAIL
Docket No. 2002-223-E
Test Year Ended March 2002
SCCA ADJUSTMENTS TO SCE&G PROFORMA AMOUNT
CASH WORKING CAPITAL ADJUSTMENT (Adjustment #24)
($000)

Adjustments to SCE&G PROFORMA O&M Expenses	$54,930
Less Retail X518 and X555 Adjustments	$59,879
Subtotal	($4,949)
1/8 of Retail O&M Adustments	($619)

SOUTH CAROLINA ELECTRIC & GAS COMPANY
SOUTH CAROLINA RETAIL
Docket No. 2002-223-E
Test Year Ended March 2002
SCCA ADJUSTMENTS TO SCE&G PROFORMA AMOUNT
INTEREST SYNCHRONIZATION ADJUSTMENT (Adjustment #25)
($000)

	TOTAL ELECTRIC	PERCENT RETAIL	RETAIL ELECTRIC
PER BOOKS ADJUSTMENT:			
PER BOOKS RATE BASE	$3,214,281		
WEIGHTED COST OF DEBT 1/	3.15%		
INTEREST EXPENSE	$101,250		
LESS PER BOOKS INTEREST	$102,160		
PER BOOKS INTEREST ADJUSTMENT	($910)	96.44%	($878)
SCCA ADJUSTMENTS TO SCE&G PROFORMA			
PLANT IN SERVICE			0
REDUCTION IN ACCUM. DEPRECIATION			(0)
CWIP			(69,527)
DEFERRED DEBITS AND CREDITS			(6,144)
WORKING CAPITAL			(619)
TOTAL			(76,289)
WEIGHTED COST OF DEBT 1/			3.15%
INTEREST ADJUSTMENT			($2,403)
TOTAL RETAIL ADJUSTMENT TO SCE&G PROFORMA			($3,281)
RETAIL STATE INCOME TAX EFFECT			($164)
RETAIL FEDERAL INCOME TAX EFFECT			($1,091)

1/ Per Witness Parcell.

Exhibit__(GAW-1)
Schedule 9

SOUTH CAROLINA ELECTRIC & GAS COMPANY
SOUTH CAROLINA RETAIL
Docket No. 2002-223-E
Test Year Ended March 2002
SCCA ADJUSTMENTS TO SCE&G PROFORMA AMOUNT
MATERIALS & SUPPIES ADJUSTMENT (Adjustment #26)
($000)

Month/Year	SOUTH CAROLINA ELECTRIC & GAS COMPANY MATERIALS AND SUPPLIES Fuel 1/	General M&S 1/	Common 1/	Air Emissions 1/	Nuclear 2/	Total
Total Electric:						
April-2001	$28,860	$34,893	$11,289	$18,856	$54,294	$148,192
May-2001	$31,423	$34,375	$11,338	$18,181	$52,641	$147,958
June-2001	$31,593	$34,142	$11,432	$18,412	$51,395	$146,974
July-2001	$26,661	$34,059	$11,659	$16,205	$49,893	$138,478
August-2001	$22,586	$34,597	$11,752	$15,051	$49,455	$133,442
September-2001	$23,782	$34,688	$12,518	$15,113	$49,085	$135,186
October-2001	$26,368	$35,844	$12,182	$14,570	$48,645	$137,609
November-2001	$32,995	$36,069	$12,130	$13,970	$47,022	$142,186
December-2001	$37,451	$35,611	$11,831	$13,276	$45,356	$143,526
January-2002	$41,376	$36,032	$12,603	$16,296	$53,924	$160,232
February-2002	$42,083	$36,077	$12,652	$14,457	$52,399	$157,668
March-2002	$42,562	$36,460	$12,547	$14,442	$50,714	$156,724
(1) Average Test Year	$32,312	$35,237	$11,994	$15,736	$50,402	$145,681
(2) Percent Retail 3/	0.9292	0.9581	0.9563	0.9292	0.9292	--
(3) Allocated Retail	$30,024	$33,761	$11,470	$14,622	$46,834	$136,711
(4) Less SCE&G Requested Retail 3/	$39,549	$34,931	$11,999	$13,420	$47,124	$147,023
(5) Adjustment	($9,525)	($1,170)	($529)	$1,202	($290)	($10,312)
(6) SCE&G Retail Adjustment						0
(7) SCCA Adjustment to SCE&G Proforma						($10,312)

1/ Per SCE&G response to Staff #1-115.
2/ Per Staff Audit request #22.
3/ Per SCE&G response to CA#2-2 (Proforma Study).

Exhibit__(GAW-1)
Schedule 10

SOUTH CAROLINA ELECTRIC & GAS COMPANY
SOUTH CAROLINA RETAIL
Docket No. 2002-223-E
Test Year Ended March 2002
SCCA ADJUSTMENTS TO SCE&G PROFORMA AMOUNT
PENALTIES & FINES ADJUSTMENT (Adjustment #27)
($000)

Disallow S.C. Dept. of Health and Environmental Control Penalty for Improper Hazardous Waste Disposal Booked to Account 921: 1/	($101)
Percent Retail 2/	95.63%
Retail Adjustment	($97)
SCE&G Retail Adjustment	$0
SCCA Adjustment to SCE&G Proforma	($97)

1/ Per Staff Misc. Audit Documents.

2/ Per SCE&G response to CA#2-2 (Proforma Study).

Exhibit__(GAW-1)
Schedule 11

SOUTH CAROLINA ELECTRIC & GAS COMPANY
SOUTH CAROLINA RETAIL
Docket No. 2002-223-E
Test Year Ended March 2002
SCCA ADJUSTMENTS TO SCE&G PROFORMA AMOUNT
STORM RESERVE ADJUSTMENT (Adjustment #28)
($000)

Actual Retail Storm Reserve (net of tax)	($16,797)
SCE&G Proforma Retail Storm Reserve	($16,533)
SCCA Adjustment to SCE&G Proforma	($264)